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**Testimony
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Review of U. S. Department of Agriculture Dairy Programs

U. S. Senate Committee on Agriculture, Nutrition and Forestry

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I am Leon Berthiaume, General Manager/CEO, of St. Albans Cooperative Creamery, Inc. located in St. Albans, Vermont.

It is a pleasure to have the opportunity to submit written testimony and participate in the hearing process as a member of a panel to review the United States Department of Agriculture Dairy programs.

I would like to thank Chairman Chambliss and Senator Patrick Leahy and members of the Committee for their leadership, commitment and support for agriculture; specifically the dairy industry.

I had the privilege of joining the St. Albans Cooperative Creamery, Inc. team in 1984 as the Controller. In 1991, I was provided the opportunity to take the position of General Manager/CEO of the Cooperative. I have the pleasure of serving in various capacities and committees serving both our state and northeast region of the dairy industry.

The St. Albans Cooperative Creamery, Inc. is a member governed dairy cooperative serving Vermont, New York and New Hampshire dairy farmers. Our membership comprises of approximately 500 members, producing in the range of 1.3 billion pounds of milk on an annualized basis. Our average member operation produces in the range of 2.4 million pounds of milk per year. Approximately 20% of our members produce 60% of the Cooperatives milk volume. When establishing and working on cooperative and dairy industry policies, it is important to represent all size farm operations.

Fifty-five percent of our milk volume is marketed directly to fluid and manufacturing plants throughout the Northeast. We operate a manufacturing facility in St. Albans, Vermont that separates approximately 45% of our milk volume to generate cream and skim solids for various customers such as Ben and Jerry's, Franklin Foods, Vermont Butter and Cheese, Saputo and other processors in New England and New York markets. Due to the Cooperatives shortage of skim solid markets, it is necessary to process excess skim solids into nonfat dry milk powder. We manufacture in the range of 10 to 20 million pounds of nonfat dry milk powder on an annualized basis.

Our team at the St. Albans Cooperative is comprised of 70 employees who are responsible for providing service, selecting stable markets and achieving the greatest return for our members by offering quality products and innovative service to customers. The Cooperative also is committed to providing active leadership for the dairy industry and in the political environment thereby benefiting all dairy farmers.

My testimony will reflect on the challenges that Vermont and other Northeast states are facing in agriculture, and the need to maintain dairy programs that provide support and economic stability for our agricultural industry.

2006 is proving to be an unprecedented year for dairy farmers. Our members are experiencing the lowest milk prices we've seen since 2003 (which mirrors pricing from the late 70's), escalating operating costs and adverse weather conditions.

Milk prices are currently at their lowest levels in over two years. There is uncertainty on the price outlook for the rest of 2006 and throughout 2007. Based on current price forecasts, we do not anticipate prices reaching levels to cover the cost of production during this timeframe. Below is a price forecast for the remainder of 2006 and 2007 that was prepared by the Vermont Dairy Task Force in June 2006.

Month	2006 Stat. Uniform	2007 Stat. Uniform
Jan	**$13.93**	$12.83
Feb	**$13.40**	$12.80
Mar	**$12.58**	$12.75
Apr	**$11.79**	$12.81
May	**$11.76**	$12.87
Jun	$11.72	$12.88
Jul	$12.17	$12.98
Aug	$12.50	$13.15
Sep	$12.74	$13.27
Oct	$12.93	$13.31
Nov	$12.91	$13.16
Dec	$12.84	$13.03
Average	$12.60	$12.99

**Statistical Uniform Prices are projected using 3.5% butterfat, 2.99% protein and 5.69% other solids.*
*** Prices that are shown in bold are already known for 2006.*
****St. Albans, Vermont County location.*

Over the course of the past three years, the St. Albans Cooperative has seen a significant decline in its average pay price to members. Listed below are the St. Albans Cooperative Creamery, Inc. average pay price "before premiums" from 2001 through 2006.

St. Albans Cooperative Average Pay Price "before premiums"

Based on Fiscal Year (Nov-Oct)

Year	$/cwt	Price per gallon
2001	14.92/cwt	$1.29 per gallon
2002	12.32/cwt	$1.06 per gallon
2003	11.94/cwt	$1.03 per gallon
2004	15.83/cwt	$1.37 per gallon
2005	15.29/cwt	$1.32 per gallon
2006 (thru April)	13.97/cwt	$1.20 per gallon
2006 (Projected)	12.40/cwt	$1.07 per gallon

In addition to depressed milk prices, farm operating costs have and continue to increase putting increased pressure on farm margins. This decrease in milk price combined with increasing operating costs will significantly impact the profitability of our member farms in 2006. The primary increase in operating costs is due to the increase in energy costs that have been absorbed by dairy farms over the past 2 years. Energy costs affect the fuel used to plant and harvest crops, electricity on farms, transportation costs and a variety of other essential resources needed to operate a dairy. Dr. David Kohl, Professor Emeritus Virginia Poly Tech states in the November 9, 2005 "Ag Lender" "On the cost side, nearly $8 of every $10 spent [on farms] is linked to the price of oil and energy through fertilizer, chemical, and other inputs."

The Northeast has been bombarded with significant amounts of rainfall through late spring and early summer. In St. Albans, Vermont, approximately 20 inches of rain has fallen between the months of May and June, which is nearly triple the average over the past ten years. These conditions have crippled farmers efforts in Vermont to plant corn and harvest hay. The Federal government has recognized this dire situation, approving a designation making all qualified farm operators eligible for low-interest emergency loans from the Farm Service Agency. The emergency designation with an allocation of funds from Congress will also allow the FSA to assist farmers through the Livestock Compensation Program, Livestock Assistance Program, Livestock Indemnity program, and Flood Compensation Program.

The impact of increased energy costs can also be felt in various areas at the Cooperatives facilities. St. Albans plant fuel costs increased from $694,135.65 in FY04 to $892,913.29 in FY05, representing a 28.64% increase. Fiscal year 2006 already shows signs of another significant increase over FY05. Lower dairy commodity prices, coupled with increased manufacturing costs have impacted the profitability of manufacturing operations. In turn, the lack of profitability impacts the dairy farmers who own and operate manufacturing and/or balancing facilities in the region.

The State of Vermont has seen the number of farms decrease over the past five years while the overall milk volume has remained level. In 2002, there were approximately 1,415 dairy farms in Vermont producing approximately 2.6 billion pounds of milk. Today, the number of dairy farms has decreased to 1,179 with production remaining steady at 2.6 billion pounds annually. Vermont has seen at least 46 dairy farms discontinue operations since the beginning of the year. Based on information from an economic impact study conducted by the University of New Hampshire, the Vermont dairy industry directly contributes approximately $1 billion into the Vermont economy. This figure includes producer payroll, producer purchases and processor revenues, excluding indirect revenues from the tourism industry. At the St. Albans Cooperative, producer payroll for its 500 members is down over $8 million when comparing January-April 2006 to January-April 2005, which are dollars that would have been re-invested into the states economy and that would have assisted in the viability of our farms operations.

The State of Vermont has taken action to combat the issues negatively impacting Vermont's dairy industry. Vermont's Governor, James Douglas, through the Agency of Agriculture formed the Vermont Dairy Task Force in the spring of 2005 to address the changing trends in the dairy industry in Vermont. The mission of the Dairy Task Force is to develop a set of strategies to improve the vitality, longevity and profitability of Vermont's dairy industry. The goals of the Dairy Task Force include: reduce costs, increase returns and increase profitability of Vermont dairy farmers as measured by a return on assets of 8%, increase the dairy herd to 150,000 animals, enhance the dairy industry in Vermont by attracting strategically important dairy processing to the state and to enhance the image and attitude of Vermont's dairy industry and dairy products for dairy farmers, the dairy industry, related agricultural businesses and the general public. In addition, Vermont's Secretary of Agriculture, Steve Kerr recently signed a Memorandum of Understanding with the Commissioner of Agriculture in New York and the Secretary of Agriculture in Pennsylvania to make the region's dairy farms more competitive and to give producers in the Northeast an opportunity to gain more market share through coordination of resources with the states working together as one. Farms in the three states produce approximately 25 billion pounds of milk per year, accounting for roughly 15% of the nation's total production. New York is the third-largest milk-producing state in the country, followed by Pennsylvania. Vermont is the 15th largest milk-producing state.

The initiatives that the State of Vermont has undertaken are critical to the long-term success of the dairy industry in Vermont. Unfortunately, these state programs combined with the MILCX program have not been enough to cover the operating costs on Vermont dairies. Hence, Vermont took on a third initiative to assist farmers financially on a short term basis. The State of Vermont instituted a Target Price Program in June 2006 to assist Vermont's dairy farmers in this time of great need due to the adverse weather conditions, high fuel prices and low milk prices. The Vermont Target Price Program is designed to provide payments in the near term to assist dairy farmers when the milk price is below $14.00 per hundredweight. The program will pay the difference between the target price and the combined announced Federal Order Statistical Uniform Price for the Middlebury, Vermont location plus the amount of the MILCX payment rate on a per hundredweight basis. This direct payment program has come at a critical time for Vermont dairy farmers, assisting in their efforts to remain viable businesses.

I would like to recognize the efforts of the US Senate Ag Committee for holding these hearings on the US Department of Agriculture's Dairy Programs. Dairy programs are vital components to our agriculture industry. It is essential to continually review and assess the need and effectiveness of those programs.

I am a proponent of the USDA establishing a policy that supports regional production of milk. Our agricultural and rural communities are an important part of the individual regions within our country's economy. The dairy industry alone generates approximately $1 billion to Vermont's economy.

I believe that from a bio-security and environmental standpoint that we would all benefit from ensuring that our dairy industry and food production is not highly concentrated in any one region in this country. It is essential that we maintain minimum levels of production in various regions of the country.

The 2002 Farm Bill included several programs that directly affect a dairy producer's income as well as conservation programs that provided assistance to dairy farmers in implementing various environmental initiatives.

Dairy farmers in the Northeast have many variables that can affect any given years production. A limited growing season can make farmers in the Northeast more vulnerable to adverse weather conditions than those farmers in other parts of the nation. Weather can adversely affect a farmer's crop yield, hence increasing the cost to feed a herd of dairy cows. The Northeast traditionally has had high operating costs compared to other regions and the Milk Income Loss contract program (MILC) has assisted tremendously in covering part of those costs in times of low milk prices. This safety net has enabled Vermont farms to remain viable during those periods of low milk prices. The MILC is similar to the Northeast Dairy Compact which provides counter-cyclical payments that are triggered when Class I milk prices in Boston fall below $16.94 per hundredweight. The MILC program provided a much needed safety net when farm milk prices hovered just below $12.00 per hundredweight in 2002 and 2003. Vermont dairy farmers received more than $45 million in MILC payments during that time.

I would like to thank the Committee's leadership and support for the extension of the MILC program. The MILCX program was extended until August 31, 2007 and payments in Vermont have already exceeded $2 million as milk prices began to drop dramatically in March of this year.

The one setback to the MILCX program is that it contains a 2.4 million pound production cap; discriminating between farmers of differing sizes. We need farms of all sizes to maintain a strong infrastructure, serving the needs of dairy farm operations within our region.

Approximately 30% of our members are affected by the production cap. In order to increase efficiencies in the utilization of labor, management and capital, many of these members have consolidated their operations, becoming multi-family farms. The size of the cap should be increased to take this into account.

The Federal Price Support Program has served the dairy industry very well over the last 6 decades and continues to be an important safety net for dairy farmers in the northeast. Although the federal support price is set relatively low at $9.90, it does provide a floor for manufactured products in times of the over-production of butter, powder and cheese. This program truly is a stand-by safety net program as it incurred almost no purchases or costs during fiscal year 2005 and throughout the first half of fiscal year 2006. However, in periods such as from July 2002 through June 2003 when prices received by dairy farmers were at 25-year lows, the program kept the industry from being in an all-out catastrophe throughout the country. The Federal Price Support Program is an important safety net program that benefits all dairy producers. The only suggestion that I would make is that the department should utilize its tilt authority with the utmost restraint when farm milk prices are on the upswing.

The Dairy Export Incentive Program is an important program that we need to encourage the Secretary of Agriculture to utilize to its maximum allowable levels. We need to market cheese, butter and nonfat dry milk to levels afforded under the current WTO agreements.

St. Albans Cooperative manufacturing of nonfat dry milk is not a profitable operation. The current Commodity Credit Corporation purchase prices for dairy products do not reflect the increased costs to provide product to the Commodity Credit Corporation. As a result market prices for individual products have, from time to time, been less than the support levels which on a milk equivalent basis provides for a price of milk at less than the statutory support level for milk of $9.90 per hundredweight at average test.

St. Albans Cooperative is participating in the self-help program; Cooperatives Working Together (CWT). Under this program, dairy farmers contribute 10 cents per hundredweight on all their milk produced in order to adjust the size of the nation’s dairy-cow herd and more closely aligning milk supply to demand. In addition, the program assists in the exportation of dairy products, in an effort to market domestically producer dairy products internationally.

The CWT program has been effective, however is not intended to take the place of federal farm programs. Participation in the CWT program is voluntary and it will always have those who choose to take advantage of its benefits without contributing to the program. For this reason, federal farm programs are still needed as well as Congress’s help in providing policy support to our industry.

As the Committee well knows, high energy costs have been particularly harmful to dairy farmer income. Dairy farmers require significant amounts of electricity to operate their facilities as well as diesel and gasoline for their equipment. In addition, dairy farmers have to pay the cost of transporting their milk. All of these higher energy costs have added anywhere them $1 to $1.50 per hundredweight to milk production costs. The 2007 Farm Bill’s Energy Title needs to be significantly expanded to help develop alternative sources of energy. One important source of energy that has not been fully tapped has been the use of manure. Although methane digesters are being built on some dairy operations, this technology, along with other new and emerging technologies, needs to be developed so they are economically feasible for various size dairy farm operations.

The Federal Milk Marketing Order program assures dairy farmers a minimum price, assure that all competing milk buyers pay the same minimum price, assure that all dairy farmers share equitably in the returns of the marketplace and assure that the terms of trade are uniform throughout the Orders' marketing area. Although the federal orders serve as an important marketing structure that helps provide dairy producers with minimum prices for their milk, the order system itself needs to be streamlined so that it can respond quickly to changes that are needed when marketing conditions are altered due to external forces in the economy. The process for obtaining administrative changes in the operation of the federal orders is much too slow.

I would like to add a couple of additional comments on USDA's working lands conservation programs. Conservation programs on working agricultural lands bring environmental benefits to both producers and the public. Conservation thus represents a double value for the taxpayers by supporting sustainable agriculture and also enhancing the environment. The 2002 Farm Bill added significant authorization for expanded funding to the Environmental Quality Incentives Program (EQIP). In addition, the farm bill included an important Regional Equity requirement which has significantly increased federal working lands conservation funding for Vermont. When combined with State of Vermont programs, conservation programs have helped significantly to reduce run off around barns and other dairy facilities and has allowed for the increased use of filter strips and other buffers along waterways. Funding for EQIP and the Regional Equity requirement should be continued in the 2007 Farm Bill and expanded as well.

We need the Committee's strong support and leadership to clarify the Superfund law or its counterpart, the Community Right-to-Know Act regarding animal manure. Getting the law clarified this year should be a high priority as animal manure is not a toxic waste. Traditional farming practices should not be jeopardized due to unclear laws that impose strict, joint and retroactive CERCLA liability on dairy farmers.

In times of greater financial stress in agriculture, it is especially important to have effective loan programs to rely on. The Farm Service Agency is an important service provider to our member farms. The current FSA direct loan limit is $200,000 for both the operating loan program and farm ownership loan program. The limits need to be re-evaluated as the current levels no longer reflect the needs on farm operations today.

In Vermont and in many other states, additional loan funds are necessary to meet the current demand.

The FSA has worked to improve efficiencies within the agency. However, there are continued opportunities to streamlining the administration of this program. FSA needs to continue to incorporate more technology and web-based resources into their programs. In addition, FSA has two very different personnel systems that continue to separate the activities of the Farm Loan Programs from the Conservation and Commodity Programs that could be consolidated. Going forward, we may need to assess whether more resources are needed for these very efficient programs.

The average age of Vermont Dairy Farmers is increasing according to the 2002 Ag Census. The group of farmers over 60 years old own and control a large amount of farmland. We do expect that farms and land will continue to transfer to other generations or other farmers. With the age of the average Vermont farmer being 54 years old, in the next 10 to 15 years more than half the farms will be changing hands. This may require modification to the existing FSA programs.

Due to the volatility of milk prices, there is increased interest and participation by dairy farmers in risk management opportunities.

In working with another dairy cooperative we are able to offer our members forward contracting opportunities. Our members are more apt to work with their cooperative on milk price opportunities. Capital is necessary to operate risk management programs. The efforts in working with dairy farmers are for short periods of duration with minimal risk. Cooperatives may need access to additional low cost capital to support this initiative.

Access to low cost capital for Cooperatives is critical with rising interest rates. Again costs of capital are borne directly by dairy farmers as owners of their Cooperatives. Access to low cost operating capital for dairy Cooperatives and dairy farmers would also be beneficial to operations. Funding plants and farms with owner equity and debt is becoming increasingly problematic as cost, improvements, and land prices continue to rise, sources of patient capital would dramatically improve this situation.

We must continue to work with our Agency of Agriculture that support dairy programs and provide technical assistance to dairy farmers. Funding continues to be essential to support our initiatives surrounding water quality, conservation and best management farm practices. Matching dollars has been important to the State's effectiveness in supporting the efforts of dairy farmers and implementing various practices and required initiatives.

Promoting and supporting animal health initiatives is essential to protecting our industry and the image of our products.

The National Johne's Disease Control Program continues to be an element of animal health that should continue to be a priority in reducing the herds associated with this disease. Sufficient funding of the program is essential to its overall success. Laboratories have been able to correctly detect and report this disease with the assistance of the USDA.

USDA has an integral role in protecting agriculture from the full impact of market conditions. There are many complex issues surrounding the structure of agriculture. We must have a vision for agriculture for the future of the industry in this country and ensure that we support it with sufficient resources.

I would again like to thank the Chairman and members of the Committee for the opportunity to provide written testimony. Your ongoing leadership, vision and understanding are critical to the implementation and oversight of USDA's dairy program. I look forward to answering any questions you may have or to provide additional information to the Committee.